

SUBJECT: Immediate qualification for certain residence homestead tax exemptions

COMMITTEE: Ways and Means — favorable, without amendment

VOTE: 6 ayes — Meyer, Button, Murphy, Noble, Sanford, Shine

0 nays

5 absent — Thierry, Cole, Guerra, Martinez Fischer, Rodriguez

SENATE VOTE: On final passage, August 9 — 29-0

WITNESSES: For — Rod Bordelon, Texas Public Policy Foundation; (*Registered, but did not testify*: Julia Parenteau, Texas Realtors; Christy Rome, Texas School Coalition; Thomas Parkinson)

Against — Adam Haynes, Conference of Urban Counties

On — Charles Reed, Dallas County Commissioners Court; (*Registered, but did not testify*: Korry Castillo, Comptroller of Public Accounts; Marya Crigler, Texas Association Appraisal District and Travis CAD)

BACKGROUND: Tax Code sec. 11.13 establishes various residence homestead property tax exemptions. An adult is entitled to exemption from taxation by a school district of \$25,000 of the appraised value of the individual's residence homestead, with certain exceptions. In addition, an adult who is disabled or at least 65 years old is entitled to a \$10,000 exemption.

Sec. 11.42 provides the dates on which a person may qualify for certain property tax exemptions. Generally, eligibility for an exemption is determined by a claimant's qualifications on January 1, and a person who does not qualify on January 1 may not receive the exemption that year. However, certain exemptions, such as the residence homestead exemption for adults who are disabled or at least 65, are effective as of January 1 of the tax year in which the person qualified and apply to the entire tax year. Some other exemptions are effective immediately on qualification and

apply to the applicable portion of the tax year.

Sec. 23.23 limits the appraised value of a residence homestead. An appraisal office may not increase the appraised value to an amount exceeding the market value of the property for the most recent tax year or a 10 percent increase in the appraised value of the preceding year plus the value of new improvements, whichever is less.

DIGEST: SB 8 would allow certain persons to receive a residence homestead property tax exemption immediately on qualification, provide calculations for the amount of tax due, and entitle school districts to state aid equal to any tax refunds provided.

Immediate qualification for tax exemption. A person who acquired property after January 1 could receive a residence homestead property tax exemption under Tax Code sec. 11.13 for the applicable portion of that tax year immediately on qualification if the preceding owner did not receive the same exemption for that year. The person would have to apply for the exemption for the applicable portion of that tax year before the first anniversary of the date the person acquired the property. These provisions would not apply to the residence homestead exemptions for persons who are disabled or at least 65.

For purposes of determining when the limitation on the appraised value of a person's residence homestead under Tax Code sec. 23.23 took effect, the person would be considered to have qualified for the exemption as of January 1 of the tax year following the year the owner acquired the property.

Calculating tax due. The bill would establish formulas for calculating the prorated amount of tax due on properties acquired and qualified for a homestead exemption after January 1.

If an individual received one or more homestead exemptions for a portion of a tax year as provided by this bill, the exemption would be prorated so that it applied to the number of days in the year after the property

qualified for the exemption.

If an individual received one or more exemptions that terminated during the year in which the individual acquired the property, the exemption would be prorated so that it applied to the number of days after the individual qualified the property for the exemption and before the exemption terminated.

Tax refunds. If an individual qualified to receive an exemption on a property after the tax was calculated and if the effect of the qualification was to reduce the tax due, the assessor for each taxing unit would have to recalculate the tax and correct the tax roll.

If the tax bill had been mailed and the tax had not been paid, the assessor would have to mail a corrected bill to the property owner. If the tax had been paid, the collector would have to issue a refund to the individual who paid the tax.

School district refunds, state aid. For each school year, a school district, including a district otherwise ineligible for state aid, would be entitled to state aid in an amount equal to the amount of all tax refunds provided under the bill.

The bill would prohibit the financial accountability rating systems for school districts and open-enrollment charter schools from including an indicator or other performance measure that penalized a district for failure to collect the amount of taxes equal to the total refunds provided by this bill.

For the purposes of calculating Tier 2 allotment, the total amount of maintenance and operation taxes collected by a school district would include the amount of taxes refunded under this bill.

Effective date. The bill would take effect January 1, 2022, and apply only to a residence homestead acquired on or after that date.

**SUPPORTERS
SAY:**

SB 8 would provide residence homestead property tax exemptions to homeowners in the year in which they acquired the property instead of the following January 1. First-time homebuyers may purchase a newly built or renovated home in February or March but under current law have to wait months until the beginning of the next tax year to receive the benefits of a homestead tax exemption. This can lead to surprise tax bills and financial insecurity. SB 8 would address this issue by allowing qualified homeowners to immediately receive the exemption upon acquiring their property, giving homeowners more predictability. As home values increase across the state, especially in large metropolitan areas, it becomes even more important to support new homebuyers by providing this relief.

The bill would provide this relief by prorating the taxes due so that the exemption applied to the number of days in the year after the property qualified. When an individual acquired a property with an existing homestead exemption, the bill would prorate that exemption so that the two homestead exemptions did not apply at the same time. While some may be concerned about the pro rata calculations in this bill increasing local tax office administration, it is within the ability of tax offices to make these calculations using existing resources.

**CRITICS
SAY:**

SB 8 could present administrative burdens to local tax offices by establishing new calculations for taxes due on a newly acquired property that qualifies for a homestead exemption. Tax assessor-collectors would have to recalculate tax bills individually by hand, which could require more staff and extra costs that exceeded the savings that individual taxpayers received. Instead of establishing pro rata formulas, the bill should begin the exemption on January 1 of the same year the property was acquired. It would be more cost effective to roll back the qualification to January 1, even if the property was acquired later in the year, than to hire additional staff to calculate the pro rata taxes. This change would be in line with other homestead exemptions, such as the exceptions provided to homeowners who are elderly or disabled, which take effect January 1 of the year the property was acquired.

NOTES:

According to the Legislative Budget Board, by extending homestead

property tax exemptions, the bill would reduce taxable property values and increase costs to the Foundation School Fund (FSF) through the operation of the school finance formulas. However, provisions of the bill providing for proration in the event an exemption terminated during the year in which an individual acquired the property could increase taxable property values and reduce costs to the FSF. Because the number and value of properties that would qualify for either provision are unknown, the fiscal impact could not be estimated.

The bill also would require additional state aid for school districts that paid refunds under the proration provisions, which would be a cost to the state. However, the amount of refunds is unknown and cannot be estimated by the LBB.